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AT&T eager to wield its iWeapon

By Leslie Cauley, USA TODAY

The Apple iPhone, due out next month, has been breathlessly hailed as offering consumers the ultimate wireless experience.

It also could give AT&T, its exclusive U.S. distributor, the ultimate experience for a wireless carrier: an easy way to handcuff rivals and steal customers.

AT&T has exclusive U.S. distribution rights for five years — an eternity in the go-go cellphone world. And Apple is barred for that time from developing a version of the iPhone for CDMA wireless networks.

That ban is no small thing. AT&T rivals Verizon Wireless and Sprint are both CDMA shops. AT&T uses GSM, a global standard incompatible with CDMA.

Bottom line: If you want an iPhone anytime soon, you'll have to take your business to AT&T.

Stan Sigman, CEO of wireless at AT&T, makes no apologies for his tough approach.

"I'm glad we have (the iPhone) in our bag," he says. "Others will try to match it, but for a period of time, they're going to be playing catch-up."

Hardball is nothing new in the cellphone industry. But as white-hot growth finally begins to slow, it's getting downright desperate out there.

To keep the momentum, big carriers such as AT&T are rapidly expanding their stable of devices, a proven way to draw people into stores. They're also piling on features — media downloading and photo-sharing are hot — and tweaking calling plans.

Their common goal: add new customers and get them to stay put.

"It's guerrilla warfare," says Jane Zweig, CEO of market researcher The Shostek Group. "They all want to say 'We're No. 1.'"

Roger Entner, a senior vice president at IAG Research, agrees. "They're battling for every customer."

Wall Street is the driver. Carriers are valued, in large part, on how many subscribers they add each month. That was a lot easier a few years ago, when it wasn't uncommon for cellphone companies to add 25% a quarter.

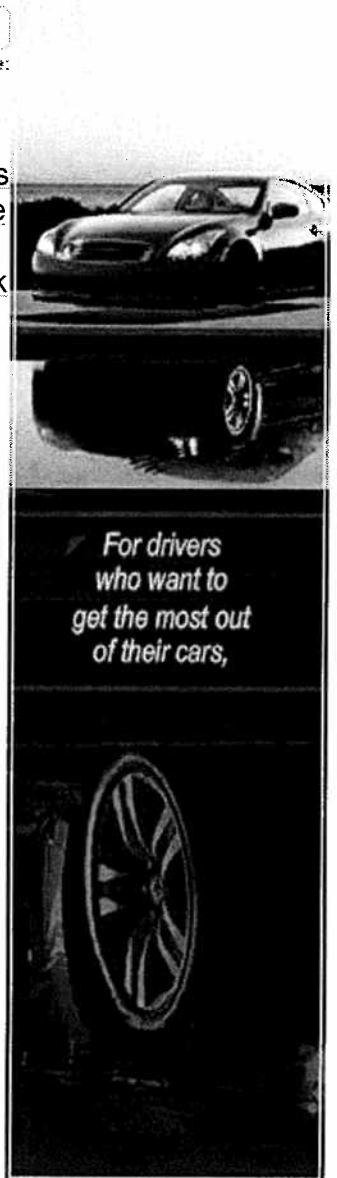
Now that the major carriers are elephantine in size, that's a lot harder to do. AT&T currently claims about 62.2 million customers. Verizon and Sprint have 60.7 million and 53.6 million, respectively.

About 78% of U.S. households have a mobile phone, says Charles Golvin, a wireless industry analyst at Forrester Research, vs. 53% five years ago. Total subscribers: about 210 million.

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For the most part, Golvin says, anybody who wants a cellphone has one. Those who don't, he says, "are the very young, the very old and the economically challenged." Those groups are not particularly attractive to the big carriers, which also are valued on how much revenue per subscriber they generate.

Rustling up revenue

That leaves the carriers with one option, basically, for adding customers: steal them.

"Today's market is not about finding new opportunities," Golvin says. "It's about stealing somebody else's customers."

The AT&T and Verizon Wireless rivalry is particularly fierce. AT&T has slightly more customers; Verizon has more revenue. Both claim to be No. 1.

They also sparred over the iPhone. As previously reported by USA TODAY, Verizon passed on the opportunity to become the exclusive U.S. distributor, balking at Apple's demand for control over distribution, pricing, marketing and more. That left an opening for AT&T — then called Cingular — to cement a deal. (AT&T on Monday officially dumped the Cingular name and store signs now are being switched. The move came slightly ahead of schedule.)

Denny Strigl, Verizon's chief operating officer, decided to pass on the iPhone deal and says he has no regrets: "Time will tell" if he made the right call, he says.

Strigl doesn't think the iPhone will be that hard to compete against. Why? Because, he says, for five long years it will be tied to AT&T's wireless network. His point: A phone is only as good as the network it runs on, and he thinks Verizon's is better.

"The issue is not the Apple-ness of the iPhone itself, but with the cellular network that it is running on," Strigl says, picking his words carefully. "That will be the true test of the iPhone: What will the iPhone experience be?"

Given Apple's cultlike following, however, Verizon isn't taking any chances. Strigl says Verizon is already working with a manufacturer — he declines to say which one — on an answer to the iPhone.

"We do have a very good response in the mill," he says. "You'll see that from us in the late summer."

Sprint names names

Sprint Nextel is also getting down and dirty.

In recent full-page newspaper ads, Sprint has lately been dumping on AT&T by name, taking swipes at the quality of its wireless network. Sprint also has derided AT&T's "fewest dropped calls" claim, saying it — not AT&T or even Verizon — has that title.

AT&T came back swinging. In full-page ads, including one in USA TODAY, AT&T shot back that "15 times more people choose AT&T than Sprint."

The ad also took a whack at Sprint's CDMA technology, saying "only AT&T keeps you connected in over 190 countries on the GSM network, the one used by 84% of wireless customers worldwide." As for "fewest dropped calls," "only AT&T" has that distinction, the ad claims. Sigman says the attacks on Sprint were deliberate — and unavoidable. "I don't like calling my competitors out by name. But I'd just had enough of it."

Gary Forsee, CEO of Sprint Nextel, says his ads weren't intended to embarrass AT&T. They were crafted, he says, to call attention to the quality and performance of the Sprint Nextel networks. (Sprint and Nextel have merged but for now have separate networks.)

"These are facts," he says. "We are calling (AT&T) out to call attention to customers and to the marketplace that we do have superior capability in our network."

Verizon, meantime, is trying to reel in customers using one of the oldest ploys in advertising: freebies.

In a splashy series of ads, the carrier has been inviting consumers to "test drive" its network for 30 days, with no obligation. If consumers aren't happy, Verizon will cover the cost of their calls.

Strigl says the ad showcases the quality of Verizon's wireless network, while driving home the point that it is confident people will like their experience. Figuring out ways to entice consumers is a constant concern for carriers, he says. Given the crush of choices consumers have, "It becomes increasingly important ... to give customers a reason to switch to us."

In today's heated environment, carriers are quick to exploit any edge they can get. Or force.

Consider the barroom brawl between Sprint and AT&T over NASCAR. At the crux: a paint job on a race car. AT&T, thanks to buying BellSouth, now owns 100% of Cingular and has changed the name to AT&T. (BellSouth had a 40% stake.) So it wanted to change the logos on the No. 31 NASCAR race car that Cingular had sponsored for years. The car was emblazoned with Cingular's jacks logos; AT&T wanted to replace them with its blue-and-white globe.

Under AT&T's proposed paint scheme, the main color of the car — orange — wouldn't change.

AT&T contended the changes were permitted under its sponsorship contract — on which Cingular has spent \$150 million since 2001 — with Richard Childress Racing, a company that operates NASCAR race teams. AT&T last year inherited the contract when it acquired the 40% of Cingular that it didn't already own.

Sprint Nextel cried foul. Nextel has a 10-year, \$750 million deal with NASCAR to back the championship Nextel Cup Series, which kicks off each February with the Daytona 500.

Sprint said its NASCAR contract, which it inherited when it bought Nextel, called for it to be the racing circuit's sole telecom sponsor. The only exception: telecom companies that were sponsors prior to Nextel's arrival. They were grandfathered in by NASCAR.

One of those was Cingular, then owned by SBC (AT&T) and BellSouth.

Sprint argued that Cingular's change in ownership structure and new name negated its sponsorship deal. As a result, Sprint said, AT&T should not be permitted to rebrand the car. NASCAR agreed. Unable to work out a compromise, AT&T last month sued NASCAR.

Racing to court

The courtroom battle was bitter. AT&T's lawyer introduced an internal Sprint e-mail that suggested NASCAR was amenable to a compromise. But the same e-mail also suggested Sprint executives weren't, concluding "no benefit would be superior to having AT&T booted out of the sport," according to a story posted on NASCAR.com.

NASCAR countered with an internal memo from AT&T. Attorney David Gelfand insisted the document showed that AT&T hoped to force its way into the sport, with the goal of muscling in on Sprint's ad turf.

Sprint wasn't a party to the case, which was heard in U.S. District Court in Atlanta. Even so, it filed briefs supporting NASCAR.

On Friday, the judge ruled in AT&T's favor. AT&T promptly issued a press release saying it looked forward "to the debut of the new paint scheme." On Saturday, the judge rejected NASCAR's request for a stay of the ruling during an appeal. The car raced with the AT&T logo and name Saturday night.

Forsee, the Sprint chief, says the fight is about much more than a paint job: "NASCAR would have chaos in the (sponsorship) categories if they didn't enforce contracts. "It's not fair to minimize" the impact of AT&T's plans, he says. "We paid hundreds of millions of dollars (to become a sponsor), and we signed a contract. All we're asking is that NASCAR enforce the contract."

Sigman says he's looking forward to getting the fight back to where he thinks it belongs. "We'd much prefer to compete against Sprint in the marketplace rather than competing over the brand of a car."

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